

**REPORT OF THE AUDIT OF THE
BOURBON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2003**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE
BOURBON COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2003

The Auditor of Public Accounts has completed the Bourbon County Fiscal Court audit for fiscal year ended June 30, 2003. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Fund balances increased by \$290,337 from the beginning of the year, resulting in a cash surplus of \$4,166,850 as of June 30, 2003. Revenues increased by \$4,976 from the prior year and disbursements decreased by \$2,363,910.

Debt Obligations:

Total bonded debt principal as of June 30, 2003, was \$4,906,026. Future collections of \$7,637,618 are needed over the next nineteen years to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$1,415,000 as of June 30, 2003. Future principal and interest payments of \$1,931,452 are needed to meet these obligations.

Report Comment:

- The Fiscal Court Should Improve Controls Over Sub-Recipient Monitoring To Ensure Compliance With Applicable Laws And Regulations

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Donnie Foley, Bourbon County Judge/Executive

Members of the Bourbon County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Bourbon County, Kentucky, as of June 30, 2003, the statement of cash receipts, cash disbursements, and changes in cash balances - all governmental fund types; the statement of cash receipts, cash disbursements, and changes in cash balances - proprietary fund type; the combined statement of revenues, expenses, and changes in retained earnings - all non-expendable trust funds; and the combined statement of cash flows - proprietary fund and non-expendable trust funds for the year then ended. These financial statements are the responsibility of the Bourbon County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Bourbon County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity of Bourbon County, Kentucky, as of June 30, 2003, and the revenues received and expenditures paid and the cash flows of its enterprise fund and non-expendable trust funds for the year then ended in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Donnie Foley, Bourbon County Judge/Executive
Members of the Bourbon County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated July 8, 2004 on our consideration of Bourbon County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Bourbon County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comment:

- The Fiscal Court Should Improve Controls Over Sub-Recipient Monitoring To Ensure Compliance With Applicable Laws And Regulations

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, cursive script.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
July 8, 2004

BOURBON COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2003

Fiscal Court Members:

Donnie R. Foley	County Judge/Executive
James S. Alexander	Magistrate
Marion Dawson	Magistrate
Barry L. Hay	Magistrate
Dorothy M. Mastin	Magistrate
Donald R. McCarty	Magistrate
George Turley	Magistrate
John N. Smoot	Magistrate

Other Elected Officials:

John J. Brady	County Attorney
Michael Fryman	Jailer
Richard S. Eads	County Clerk
Sherry Rankin	Circuit Court Clerk
Mark L. Matthews	Sheriff
Woodford Wayne Turner	Property Valuation Administrator
Rosemary Kitchen	Coroner

Appointed Personnel:

Mary Allen Hedges	County Treasurer
Mary Allen Hedges	Occupational Tax Collector
Charlotte O. Stone	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

BOURBON COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2003

	Governmental Fund Type			
	General	Special Revenue	Capital Projects	Debt Service
<u>Assets and Other Resources</u>				
<u>Assets</u>				
Cash and Cash Equivalents	\$ 2,993,957	\$ 828,632	\$ 331,476	\$
Cash and Cash Equivalents - Non-Expendable Trusts				
Restricted Cash-				
Fringe Benefits Account	732			
Investments				
Total Assets	<u>\$ 2,994,689</u>	<u>\$ 828,632</u>	<u>\$ 331,476</u>	<u>\$ 0</u>
<u>Other Resources</u>				
Amounts to Be Provided in Future Years for:				
Capital Lease Payments	\$ 1,415,000	\$	\$	\$ 106,026
Bond Payments				
Series 1995				240,000
Series 2000				4,560,000
Total Other Resources	<u>\$ 1,415,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,906,026</u>
Total Assets and Other Resources	<u><u>\$ 4,409,689</u></u>	<u><u>\$ 828,632</u></u>	<u><u>\$ 331,476</u></u>	<u><u>\$ 4,906,026</u></u>

The accompanying notes are an integral part of the financial statements.

BOURBON COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND EQUITY ARISING FROM CASH TRANSACTIONS
 June 30, 2003
 (Continued)

<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
<u>Enterprise</u>	<u>Non-Expendable Trust</u>	
\$ 12,785	\$	\$ 4,166,850
	707,641	707,641
		732
	4,546,543	4,546,543
<u>\$ 12,785</u>	<u>\$ 5,254,184</u>	<u>\$ 9,421,766</u>
\$	\$	\$ 1,521,026
		240,000
		4,560,000
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6,321,026</u>
<u>\$ 12,785</u>	<u>\$ 5,254,184</u>	<u>\$ 15,742,792</u>

The accompanying notes are an integral part of the financial statements.

BOURBON COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS
June 30, 2003
(Continued)

	Governmental Fund Type			
	General	Special Revenue	Capital Projects	Debt Service
<u>Liabilities and Equity</u>				
<u>Liabilities</u>				
Capital Lease Payments (Note 5 and 4A)	\$ 1,415,000	\$	\$	\$ 106,026
Bonds:				
Series 1995 (Note 4B)				240,000
Series 2000 (Note 4C)				4,560,000
Total Liabilities	<u>\$ 1,415,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,906,026</u>
<u>Equity</u>				
Fund Balances:				
Reserved	\$	\$ 828,632	\$ 331,476	\$
Unreserved	2,994,689			
Total Equity	<u>\$ 2,994,689</u>	<u>\$ 828,632</u>	<u>\$ 331,476</u>	<u>\$ 0</u>
Total Liabilities and Equity	<u><u>\$ 4,409,689</u></u>	<u><u>\$ 828,632</u></u>	<u><u>\$ 331,476</u></u>	<u><u>\$ 4,906,026</u></u>

The accompanying notes are an integral part of the financial statements.

BOURBON COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND EQUITY ARISING FROM CASH TRANSACTIONS
 June 30, 2003
 (Continued)

<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Non-Expendable Trust</u>	
	<u>Enterprise</u>	
\$	\$	\$ 1,521,026
		240,000
		<u>4,560,000</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6,321,026</u>
\$ 12,785	\$ 5,254,184	\$ 6,427,077
		<u>2,994,689</u>
<u>\$ 12,785</u>	<u>\$ 5,254,184</u>	<u>\$ 9,421,766</u>
<u>\$ 12,785</u>	<u>\$ 5,254,184</u>	<u>\$ 15,742,792</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - ALL GOVERNMENTAL FUND TYPES

BOURBON COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - ALL GOVERNMENTAL FUND TYPES

For The Fiscal Year Ended June 30, 2003

	General Fund Type				
	General Fund	Road and Bridge Fund	Jail Fund	Local Government Economic Assistance Fund	State Grant Fund
<u>Cash Receipts</u>					
Schedule of Operating Revenue	\$ 3,389,370	\$ 1,000,846	\$ 597,095	\$ 71,339	\$ 114,170
Other Financing Sources:					
Transfers In			669,209		
Transfers From Trust Fund Principal Funds					
Kentucky Advance Revenue Program	1,116,600				
Total Cash Receipts	<u>\$ 4,505,970</u>	<u>\$ 1,000,846</u>	<u>\$ 1,266,304</u>	<u>\$ 71,339</u>	<u>\$ 114,170</u>
<u>Cash Disbursements</u>					
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 2,750,134	\$ 968,186	\$ 983,561	\$ 60,977	\$ 114,170
Other Financing Uses:					
Schedule of Unbudgeted Expenditures					
Transfers Out	796,937				
Capital Lease Payment - Principle			110,000		
Bonds:					
Principal Paid					
Interest Paid					
Kentucky Advance Revenue Program Repaid	1,116,600				
Total Cash Disbursements	<u>\$ 4,663,671</u>	<u>\$ 968,186</u>	<u>\$ 1,093,561</u>	<u>\$ 60,977</u>	<u>\$ 114,170</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (157,701)	\$ 32,660	\$ 172,743	\$ 10,362	\$
Cash Balance - July 1, 2002	1,149,401	622,616	1,075,633	88,243	
Cash Balance - June 30, 2003	<u>\$ 991,700</u>	<u>\$ 655,276</u>	<u>\$ 1,248,376</u>	<u>\$ 98,605</u>	<u>\$ 0</u>

* Cash Balance Includes Investments

The accompanying notes are an integral part of the financial statements.

BOURBON COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
 AND CHANGES IN CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
 For The Fiscal Year Ended June 30, 2003
 (Continued)

Special Revenue Fund Type			Capital Projects Fund Type	Debt Service Fund Type	
Phase I Fund	Health and Welfare Fund	Educational Trust Checking Fund	Bond Proceeds Fund	Public Properties Corporation Fund	Totals (Memorandum Only)
\$ 588,588	\$ 5,273	\$ 6,451	\$ 11,886	\$	\$ 5,785,018
		208,510		127,728	796,937
					208,510
					1,116,600
<u>\$ 588,588</u>	<u>\$ 5,273</u>	<u>\$ 214,961</u>	<u>\$ 11,886</u>	<u>\$ 127,728</u>	<u>\$ 7,907,065</u>
 \$ 346,585	 \$	 \$	 \$ 51,922	 \$	 \$ 5,275,535
	1,012	192,698			193,710
					796,937
					110,000
				110,000	110,000
				17,740	17,740
					1,116,600
<u>\$ 346,585</u>	<u>\$ 1,012</u>	<u>\$ 192,698</u>	<u>\$ 51,922</u>	<u>\$ 127,740</u>	<u>\$ 7,620,522</u>
 \$ 242,003	 \$ 4,261	 \$ 22,263	 \$ (40,036)	 \$ (12)	 \$ 286,543
39,687	13,653	506,765	371,512	12	3,867,522
<u>\$ 281,690</u>	<u>\$ 17,914</u>	<u>\$ 529,028</u>	<u>\$ 331,476</u>	<u>\$ 0</u>	<u>\$ 4,154,065</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES - PROPRIETARY FUND TYPE

BOURBON COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES - PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2003

	<u>Enterprise Fund Type</u>
<u>Cash Receipts</u>	<u>Jail Canteen Fund</u>
Receipts - Jail Canteen	\$ 97,060
Total Cash Receipts	\$ 97,060
 <u>Cash Disbursements</u>	
Expenditures - Jail Canteen	\$ 93,266
Total Cash Disbursements	\$ 93,266
Excess of Cash Receipts Over Cash Disbursements	\$ 3,794
Cash Balance - July 1, 2002	8,991
Cash Balance - June 30, 2003	\$ 12,785

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COMBINED STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS - ALL NON-EXPENDABLE TRUST FUNDS

BOURBON COUNTY
 COMBINED STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS - ALL NON-EXPENDABLE TRUST FUNDS

For The Fiscal Year Ended June 30, 2003

<u>Operating Revenues:</u>	<u>Fiduciary Fund Type</u>
Interest	\$ 148,267
Dividends	<u>61,675</u>
Total Operating Revenues	<u>\$ 209,942</u>
 <u>Operating Expenses:</u>	
Commissions and Fees	\$ 28,958
Scholarships Paid	<u>29,900</u>
Total Operating Expenses	<u>\$ 58,858</u>
 Income Before Nonoperating Revenues (Expenses)	 <u>\$ 151,084</u>
 <u>Nonoperating Revenues (Expenses):</u>	
Transfer to Fiscal Court	\$ (162,584)
Gain on Sale of Investments	<u>206,565</u>
Total Nonoperating Revenues (Expenses)	<u>\$ 43,981</u>
 Net Income	 \$ 195,065
Retained Earnings - July 1, 2002	<u>5,059,119</u>
Retained Earnings - June 30, 2003	<u><u>\$ 5,254,184</u></u>

The accompanying notes are an integral part of the financial statements.

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COMBINED STATEMENT OF CASH FLOWS -
PROPRIETARY FUND TYPE AND NON-EXPENDABLE TRUST FUNDS

**COMBINED STATEMENT OF CASH FLOWS -
PROPRIETARY FUND TYPE AND NON-EXPENDABLE TRUST FUNDS**

For The Fiscal Year Ended June 30, 2003

	Enterprise Fund Type	Fiduciary Fund Type	Totals Primary Government (Memorandum Only)
	Jail Canteen Fund	Non-Expendable Trust	(Memorandum Only)
Cash Flows From Operating Activities:			
Operating Income	\$ 3,794	\$ 151,084	\$ 154,878
Net Cash Provided By Operating Activities	\$ 3,794	\$ 151,084	\$ 154,878
Cash Flows From Non-Capital Financing Activities:			
Transfer to Fiscal Court		\$ (162,584)	\$ (162,584)
Net Cash Used in Non-Capital Financing Activities		\$ (162,584)	\$ (162,584)
Cash Flows from Investing Activities:			
Gain on Sale of Investments		\$ 206,565	\$ 206,565
Net Cash Provided by Investing Activities		\$ 206,565	\$ 206,565
Net Increase in Cash and Cash Equivalents	\$ 3,794	\$ 195,065	\$ 198,859
Cash and Cash Equivalents - July 1, 2002	8,991	460,005	468,996
Cash and Cash Equivalents - June 30, 2003	\$ 12,785	\$ 655,070	\$ 667,855

The accompanying notes are an integral part of the financial statements.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Bourbon County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Public Properties Corporation as part of the reporting entity.

Bourbon County Public Properties Corporation

The Bourbon County Public Properties Corporation cannot be sued in its own name without recourse to the Bourbon County Fiscal Court, which appoints a voting majority consisting of fiscal court members and the County Attorney. The fiscal court is able to impose its will on the Corporation. The Corporation is created solely for the benefit of the fiscal court per KRS 58.180 to act as an agent in the acquisition and financing of any public project. The fiscal court has access to the Corporation's resources, is legally obligated to finance the debts of or provide financial support to the Corporation. The Corporation is financially accountable to the fiscal court. This component unit is blended within the financial statements of the county.

Additional - Bourbon County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Bourbon County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Bourbon County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Bourbon County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, and the State Grant Fund.

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Bourbon County Special Revenue Fund Type includes the following county funds: the Phase I Fund, Health and Welfare Fund and the Educational Trust Checking Funds.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Public Properties Corporation Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

4) Capital Projects Fund Type

Capital Projects Fund Type accounts for financial resources to be used for acquisition of major capital facilities. The Bond Proceeds Fund of the Fiscal Court is reported as a Capital Projects Fund Type.

5) Enterprise Fund Type

The Enterprise Fund Type is used to report an activity for which a fee is charged to external users for goods or services. The Bourbon County Enterprise Fund Type includes the jail canteen fund, which is maintained by the county jailer.

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations. All profit expenditures were for the benefit and/or recreation of the inmates.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

6) Fiduciary Fund Type

Fiduciary Fund Type accounts for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the government. When these assets are held under the terms of a formal agreement, either a pension trust fund, a non-expendable trust fund, or an expendable trust fund is used. The terms “non-expendable” or “expendable” refer to whether or not the government is under obligation to maintain trust principal.

Non-expendable trust funds account for revenue expended to carry out the objectives of the trust and for the corpus (principal) of the trust, which must remain intact. The Bourbon County Non-expendable Trust Funds include the following: E.M. Costello Fund, Garth Fund, Thomas Costello Fund, Hamilton Fund, Robert Meteer Fund, Lucy Anderson Fund, Harrell-Kennedy Fund, Elaine Hinkle Fund, Lou Redmon Fund, John Marston Educational Fund, Howard Forquer Fund, May Goff Fund, Talbott Clay Fund, Frances Champ Fund, Clifton Gillespie Fund, F.M. Gillespie Fund and Ella Davis Fund.

C. Basis of Accounting

For all fund types the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, long-term obligations and amount to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore, the value of the county’s fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance - Budget

The Bourbon County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Public Properties Corporation Fund because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and transfers are budgeted in the General Fund Type to comply with these requirements. The Department for Local Government does not require this fund to be budgeted. Formal budgets are not adopted for the non-expendable trust funds because the trust agreements do not require these funds to be budgeted. A formal budget is not adopted for the Health and Welfare Fund because this was a donation left in 1991 in order to help buy prescriptions for indigents.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost, including the non-expendable trust funds. Investments may include certificates of deposit on the financial statement; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the Judy Water Association is considered a related organization of Bourbon County Fiscal Court.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits and Investments

A. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2003, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 3. Deposits and Investments (Continued)

B. Investments

The county's investments are categorized below to give an indication of the level of risk assumed by the county at year-end. Category 1 includes investments that are insured or registered or the securities are held by the county or by the county's agent in the county's name. Category 2 includes uninsured and unregistered investments where the securities are held by the financial institution in the county's name. Category 3 includes uninsured and unregistered investments where the securities were held by the financial institution, but not in the county's name.

Types of Investments	Category			Carrying Amount	Market Value
	1	2	3		
Cash Equivalents	\$	\$	\$ 707,641	\$ 707,641	\$ 791,038
Bonds - Government			593,057	593,057	661,148
Bonds - Corporate			1,272,370	1,272,370	1,357,606
Mutual Funds - Fixed			282,399	282,399	291,947
Mutual Funds - Equity			1,086,727	1,086,727	923,310
Certificate of Deposit			236,547	236,547	541,742
Common Stock			1,075,443	1,075,443	1,204,350
Totals	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,254,184</u>	<u>\$ 5,254,184</u>	<u>\$ 5,771,141</u>

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 4. Long-Term Debt

- A. During fiscal year ending June 30, 1998, the Bourbon County Public Properties Corporation entered into a promissory term note agreement with Community Ventures Corporation, at a fixed interest rate of 5 percent, for the purchase and renovation of a manufacturing facility. The Public Properties Corporation is obligated to pay \$131,500 in principal payments over seven years, beginning October 5, 1997, with a final balloon payment of \$100,308 due on September 5, 2004. As of June 30, 2003, the outstanding principal balance was \$106,026.

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 5,182	\$ 5,236
2005	1,254	100,790
	<hr/>	<hr/>
Totals	<u>\$ 6,436</u>	<u>\$ 106,026</u>

The property was subsequently leased to Accutran Industries, Inc. The lease agreement requires monthly payments of \$868. Accutran Industries, Inc. is in substantial compliance with the terms of the lease agreement.

- B. On May 5, 1995, the Bourbon County Public Properties Corporation issued bonds, Series 1995, in the amount of \$1,000,000, for the purpose of paying courthouse renovation costs. Principal payments are made annually on February 1, and interest on the bonds is payable semiannually on February 1 and August 1. To aid in debt relief, the Administrative Office of the Courts makes a biannual payment in the amount of \$20,120 directly to the Paying Agent. The County is liable for the remaining difference. As of June 30, 2003, the outstanding principal balance was \$240,000.

<u>Due Date</u>	<u>Interest</u>	<u>Principal</u>
August 1, 2003	\$ 6,120	\$
February 1, 2004	6,120	115,000
August 1, 2004	3,187	
February 1, 2005	3,188	125,000
	<hr/>	<hr/>
Totals	<u>\$ 18,615</u>	<u>\$ 240,000</u>

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 4. Long-Term Debt (Continued)

- C. On August 1, 2000, the Bourbon County Public Properties Corporation issued bonds, Series 2000, in the amount of \$4,705,000 for the purpose of constructing a circuit and district court facility. Principal payments are made annually on February 1, and interest on the bonds is payable on February 1 and August 1. Payment of interest, which is a variable rate ranging from 4.875 percent to 5.25 percent, commenced on February 1, 2001. As of June 30, 2003, the outstanding principal balance was \$4,560,000.

<u>Due Date</u>	<u>Interest</u>	<u>Principal</u>
August 1, 2003	\$ 116,943	\$
February 1, 2004	116,943	150,000
August 1, 2004	113,287	
February 1, 2005	113,287	155,000
August 1, 2005	109,509	
February 1, 2006	109,509	165,000
August 1, 2006	105,487	
February 1, 2007	105,487	175,000
August 1, 2007	101,221	
February 1, 2008	101,221	180,000
August 1, 2008 - February 1, 2013	867,213	1,050,000
August 1, 2013 - February 1, 2018	569,510	1,355,000
August 1, 2018 - February 1, 2022	176,924	1,330,000
Totals	<u>\$ 2,706,541</u>	<u>\$ 4,560,000</u>

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Long-Term Participation Agreement

During fiscal year ended June 30, 1992, the Bourbon County Fiscal Court entered into a twenty year, \$2,300,000 lease participation agreement with GMB Financial Group, Inc. for the construction of a detention center. As specified by terms of the lease, principal payments are due annually on January 1, and interest payments are due semiannually on July 1 and January 1, respectively. As of June 30, 2003, the outstanding principal balance was \$1,415,000.

<u>Due Date</u>	<u>Interest</u>	<u>Principal</u>
July 1, 2003	\$ 47,194	\$
January 1, 2004	47,194	120,000
July 1, 2004	43,294	
January 1, 2005	43,294	130,000
July 1, 2005	39,069	
January 1, 2006	39,069	135,000
July 1, 2006	34,681	
January 1, 2007	34,681	145,000
July 1, 2007	29,969	
January 1, 2008	29,969	155,000
July 1, 2008 - January 1, 2012	<u>128,038</u>	<u>730,000</u>
Totals	<u>\$ 516,452</u>	<u>\$ 1,415,000</u>

Note 6. Non-Expendable Trust Funds

The county has fifteen educational trust funds established by the will and codicils of various residents of Bourbon County. The wills imposed that the funds be held in perpetuity, which means that the original principal amount remain intact. The income generated by the principal, less administrative costs, is to be spent for educational scholarships. The county has a committee, appointed by the Judge/Executive, that decides how the money shall be disbursed based on applications received by the Judge/Executive's office. The following are educational trust funds of Bourbon County: E.M. Costello Fund, Garth Fund, Thomas Costello Fund, Hamilton Fund, Robert Meter Fund, Lucy Anderson Fund, Harrell-Kennedy Fund, Elaine Hinkle Fund, Lou Redmon Fund, John Marston Educational Fund, Howard Forquer Fund, May Goff Fund, Talbott Clay Fund, Frances Champ Fund, Clifton Gillespie Fund, F.M. Gillespie Fund, and Ella Davis Fund.

The Clifton Gillespie Trust Fund was established to provide financial assistance with hospitals to indigent residents of Bourbon County. The County Judge/Executive decides who shall receive assistance from this fund by applications submitted. Each eligible person is limited to \$2,000.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 7. Commitments and Contingencies

During the audit, the county informed the auditors of a situation involving an investigation by the Commonwealth of Kentucky's Office of the Attorney General. They were investigating the fact that three employees of the county, which work at the fire department, had allegedly falsified time cards in order to receive increased compensation. The county informed the auditors that one employee has pled guilty while the two remaining employees have entered a not guilty plea. As of the date of this audit, the amount of restitution has not been calculated for the guilty plea; therefore a contingency amount has not been determined.

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COMBINING BALANCE SHEET - ALL NON-EXPENDABLE TRUST FUNDS

BOURBON COUNTY
COMBINING BALANCE SHEET - ALL NON-EXPENDABLE TRUST FUNDS

June 30, 2003

<u>Assets and Other Resources</u>	<u>E.M. Costello Fund</u>	<u>Garth Fund</u>	<u>Thomas Costello Fund</u>
<u>Assets</u>			
Cash Equivalents - Non-Expendable Trust	\$ 1,138	\$ 87,529	\$ 212
Bonds-Government	36,786	33,496	5,457
Bonds-Corporate			
Mutual Funds - Fixed			
Mutual Funds - Equity			
Certificate of Deposit			
Common Stock			
	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$ 37,924</u>	<u>\$ 121,025</u>	<u>\$ 5,669</u>
 <u>Liabilities and Equity</u>			
<u>Equity</u>			
Retained Earnings:			
Reserved	<u>\$ 37,924</u>	<u>\$ 121,025</u>	<u>\$ 5,669</u>
Total Equity	<u>\$ 37,924</u>	<u>\$ 121,025</u>	<u>\$ 5,669</u>
Total Liabilities and Equity	<u>\$ 37,924</u>	<u>\$ 121,025</u>	<u>\$ 5,669</u>

BOURBON COUNTY

COMBINING BALANCE SHEET - ALL NON-EXPENDABLE TRUST FUNDS

June 30, 2003

(Continued)

Hamilton Fund	Robert Meteer Fund	Lucy Anderson Fund	Harrell- Kennedy Fund	Elaine Hinkle Fund	Lou Redmon Fund
\$ 425 10,908	\$ 212,678 189,946 281,660 51,301	\$ 40,485 100,154 70,000 205,000	\$ 1,315 17,306 14,975	\$ 2,085 8,578 3,481	\$ 4,938 12,169 17,169
<u>\$ 11,333</u>	<u>\$ 735,585</u>	<u>\$ 415,639</u>	<u>\$ 33,596</u>	<u>\$ 14,144</u>	<u>\$ 34,276</u>
<u>\$ 11,333</u>	<u>\$ 735,585</u>	<u>\$ 415,639</u>	<u>\$ 33,596</u>	<u>\$ 14,144</u>	<u>\$ 34,276</u>
<u>\$ 11,333</u>	<u>\$ 735,585</u>	<u>\$ 415,639</u>	<u>\$ 33,596</u>	<u>\$ 14,144</u>	<u>\$ 34,276</u>
<u>\$ 11,333</u>	<u>\$ 735,585</u>	<u>\$ 415,639</u>	<u>\$ 33,596</u>	<u>\$ 14,144</u>	<u>\$ 34,276</u>

BOURBON COUNTY
 COMBINING BALANCE SHEET - ALL NON-EXPENDABLE TRUST FUNDS
 June 30, 2003
 (Continued)

<u>Assets and Other Resources</u>	<u>John Marston Educational Fund</u>	<u>Howard Forquer Fund</u>	<u>May Goff Fund</u>
<u>Assets</u>			
Cash Equivalents - Non-Expendable Trust	\$ 75,467	\$ 107,216	\$ 12,822
Bonds-Government	110,187	20,000	
Bonds-Corporate	448,623	140,377	14,798
Mutual Funds - Fixed	60,000	38,346	6,000
Mutual Funds - Equity	150,000	210,000	27,906
Certificate of Deposit	72,077	51,302	
Common Stock	464,089		
Total Assets	<u>\$ 1,380,443</u>	<u>\$ 567,241</u>	<u>\$ 61,526</u>
<u>Liabilities and Equity</u>			
<u>Equity</u>			
Retained Earnings:			
Reserved	<u>\$ 1,380,443</u>	<u>\$ 567,241</u>	<u>\$ 61,526</u>
Total Equity	<u>\$ 1,380,443</u>	<u>\$ 567,241</u>	<u>\$ 61,526</u>
Total Liabilities and Equity	<u>\$ 1,380,443</u>	<u>\$ 567,241</u>	<u>\$ 61,526</u>

BOURBON COUNTY

COMBINING BALANCE SHEET - ALL NON-EXPENDABLE TRUST FUNDS

June 30, 2003

(Continued)

Talbott Clay Fund	Frances Champ Fund	Clifton Gillespie Fund	FM Gillespie Fund	Ella Davis Fund	Totals (Memorandum Only)
\$ 70,640	\$ 3,132	\$ 21,982	\$ 41,401	\$ 24,176	\$ 707,641
	25,862	350,361			593,057
65,117	23,835	234,506	45,148	9,866	1,272,370
50,000			20,000		282,399
60,000			83,440	33,096	1,086,727
51,556			10,311		236,547
		611,354			1,075,443
<u>\$ 297,313</u>	<u>\$ 52,829</u>	<u>\$ 1,218,203</u>	<u>\$ 200,300</u>	<u>\$ 67,138</u>	<u>\$ 5,254,184</u>
<u>\$ 297,313</u>	<u>\$ 52,829</u>	<u>\$ 1,218,203</u>	<u>\$ 200,300</u>	<u>\$ 67,138</u>	<u>\$ 5,254,184</u>
<u>\$ 297,313</u>	<u>\$ 52,829</u>	<u>\$ 1,218,203</u>	<u>\$ 200,300</u>	<u>\$ 67,138</u>	<u>\$ 5,254,184</u>
<u>\$ 297,313</u>	<u>\$ 52,829</u>	<u>\$ 1,218,203</u>	<u>\$ 200,300</u>	<u>\$ 67,138</u>	<u>\$ 5,254,184</u>

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COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS - ALL NON-EXPENDABLE TRUST FUNDS

BOURBON COUNTY
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS - ALL NON-EXPENDABLE TRUST FUNDS

June 30, 2003

	E.M. Costello Fund	Garth Fund	Thomas Costello Fund
<u>Operating Revenues:</u>			
Interest	\$ 2,248	\$ 3,259	\$ 425
Dividends		900	
Total Operating Revenues	<u>\$ 2,248</u>	<u>\$ 4,159</u>	<u>\$ 425</u>
<u>Operating Expenses:</u>			
Commissions and Fees	\$	\$ 96	\$ 30
Scholarships Paid			
Total Operating Expenses	<u>\$ 0</u>	<u>\$ 96</u>	<u>\$ 30</u>
Income Before Nonoperating Revenues (Expenses)	<u>\$ 2,248</u>	<u>\$ 4,063</u>	<u>\$ 395</u>
<u>Nonoperating Revenues (Expenses):</u>			
Transfer to Fiscal Court	\$ (2,250)	\$ (3,904)	\$ (425)
Gain (Loss) on Sale of Investments			
Total Nonoperating Revenues (Expenses)	<u>\$ (2,250)</u>	<u>\$ (3,904)</u>	<u>\$ (425)</u>
Net Income	\$ (2)	\$ 159	\$ (30)
Retained Earnings - July 1, 2002	<u>37,926</u>	<u>120,866</u>	<u>5,699</u>
Retained Earnings - June 30, 2003	<u><u>\$ 37,924</u></u>	<u><u>\$ 121,025</u></u>	<u><u>\$ 5,669</u></u>

BOURBON COUNTY
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND
 CHANGES IN RETAINED EARNINGS - ALL NON-EXPENDABLE TRUST FUNDS
 June 30, 2003
 (Continued)

Hamilton Fund	Robert Meter Fund	Lucy Anderson Fund	Harrell- Kennedy Fund	Elaine Hinkle Fund	Lou Redmon Fund
\$ 850	\$ 22,979 7,218	\$ 8,406 9,237	\$ 315 738	\$ 4 375	\$ 248 644
\$ 850	\$ 30,197	\$ 17,643	\$ 1,053	\$ 379	\$ 892
\$ 58	\$ 4,143 29,800	\$ 2,831	\$ 400	\$ 100 100	\$ 400
\$ 58	\$ 33,943	\$ 2,831	\$ 400	\$ 200	\$ 400
\$ 792	\$ (3,746)	\$ 14,812	\$ 653	\$ 179	\$ 492
\$ (850)	\$	\$ (19,540) 52	\$ (900) (36)	\$ (202)	\$ (715) 167
\$ (850)	\$ 0	\$ (19,488)	\$ (936)	\$ (202)	\$ (548)
\$ (58) 11,391	\$ (3,746) 739,331	\$ (4,676) 420,315	\$ (283) 33,879	\$ (23) 14,167	\$ (56) 34,332
\$ 11,333	\$ 735,585	\$ 415,639	\$ 33,596	\$ 14,144	\$ 34,276

BOURBON COUNTY
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND
 CHANGES IN RETAINED EARNINGS - ALL NON-EXPENDABLE TRUST FUNDS
 June 30, 2003
 (Continued)

	John Marston Educational Fund	Howard Forquer Fund	May Goff Fund
<u>Operating Revenues:</u>			
Interest	\$ 35,890	\$ 15,316	\$ 2,021
Dividends	18,762	6,898	489
Total Operating Revenues	<u>\$ 54,652</u>	<u>\$ 22,214</u>	<u>\$ 2,510</u>
<u>Operating Expenses:</u>			
Commissions and Fees	\$ 7,922	\$ 3,582	\$ 450
Scholarships Paid			
Total Operating Expenses	<u>\$ 7,922</u>	<u>\$ 3,582</u>	<u>\$ 450</u>
Income Before Nonoperating Revenues (Expenses)	<u>\$ 46,730</u>	<u>\$ 18,632</u>	<u>\$ 2,060</u>
<u>Nonoperating Revenues (Expenses):</u>			
Transfer to Fiscal Court	\$ (54,046)	\$ (20,205)	\$ (2,207)
Gain (Loss) on Sale of Investments	(23,691)	(841)	(51)
Total Nonoperating Revenues (Expenses)	<u>\$ (77,737)</u>	<u>\$ (21,046)</u>	<u>\$ (2,258)</u>
Net Income	\$ (31,007)	\$ (2,414)	\$ (198)
Retained Earnings - July 1, 2002	<u>1,411,450</u>	<u>569,655</u>	<u>61,724</u>
Retained Earnings - June 30, 2003	<u><u>\$ 1,380,443</u></u>	<u><u>\$ 567,241</u></u>	<u><u>\$ 61,526</u></u>

BOURBON COUNTY
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND
 CHANGES IN RETAINED EARNINGS - ALL NON-EXPENDABLE TRUST FUNDS
 June 30, 2003
 (Continued)

Talbott Clay Fund	Frances Champ Fund	Clifton Gillespie Fund	FM Gillespie Fund	Ella Davis Fund	Totals (Memorandum Only)
\$ 8,208	\$ 4,116	\$ 35,681	\$ 6,469	\$ 1,832	\$ 148,267
5,598	10	8,252	2,025	529	61,675
\$ 13,806	\$ 4,126	\$ 43,933	\$ 8,494	\$ 2,361	\$ 209,942
\$ 1,761	\$ 115	\$ 5,524	\$ 1,108	\$ 438	\$ 28,958
					29,900
\$ 1,761	\$ 115	\$ 5,524	\$ 1,108	\$ 438	\$ 58,858
\$ 12,045	\$ 4,011	\$ 38,409	\$ 7,386	\$ 1,923	\$ 151,084
\$ (11,295)	\$ (3,057)	\$ (39,508)	\$ (3,000)	\$ (480)	\$ (162,584)
(649)		231,752	(42)	(96)	206,565
\$ (11,944)	\$ (3,057)	\$ 192,244	\$ (3,042)	\$ (576)	\$ 43,981
\$ 101	\$ 954	\$ 230,653	\$ 4,344	\$ 1,347	\$ 195,065
297,212	51,875	987,550	195,956	65,791	5,059,119
\$ 297,313	\$ 52,829	\$ 1,218,203	\$ 200,300	\$ 67,138	\$ 5,254,184

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COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

BOURBON COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 3,763,946	\$ 3,389,370	\$ (374,576)
Road and Bridge Fund	984,842	1,000,846	16,004
Jail Fund	1,260,208	597,095	(663,113)
Local Government Economic Assistance Fund	73,000	71,339	(1,661)
State Grant Fund	416,000	114,170	(301,830)
<u>Special Revenue Fund Type</u>			
Phase I Fund	645,653	588,588	(57,065)
<u>Capital Projects Fund Type</u>			
Bond Proceeds Fund	4,500	11,886	7,386
Totals	<u>\$ 7,148,149</u>	<u>\$ 5,773,294</u>	<u>\$ (1,374,855)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 7,148,149
Add: Budgeted Prior Year Surplus			3,622,926
Less: Other Financing Uses			<u>(1,354,340)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>9,416,735</u>

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SCHEDULE OF OPERATING REVENUE

BOURBON COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

<u>GOVERNMENTAL FUND TYPE</u>				
<u>Revenue Categories</u>	<u>General Fund Type</u>	<u>Special Revenue Fund Type</u>	<u>Capital Projects Fund Type</u>	<u>Totals (Memorandum Only)</u>
Taxes	\$ 2,554,947	\$	\$	\$ 2,554,947
Excess Fees	74,248			74,248
Licenses and Permits	40,023			40,023
Intergovernmental Revenues	2,266,199	587,750		2,853,949
Charges for Services	59,759			59,759
Miscellaneous Revenues	80,302	5,000	5	85,307
Interest Earned	97,342	7,562	11,881	116,785
Total Operating Revenue	<u>\$ 5,172,820</u>	<u>\$ 600,312</u>	<u>\$ 11,886</u>	<u>\$ 5,785,018</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

BOURBON COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2003

<u>Expenditure Categories</u>	<u>GENERAL FUND TYPE</u>		
	<u>Final Budget</u>	<u>Budgeted Expenditures</u>	<u>Under (Over) Budget</u>
General Government	\$ 936,685	\$ 847,862	\$ 88,823
Protection to Persons and Property	1,688,809	1,461,087	227,722
General Health and Sanitation	544,004	285,141	258,863
Social Services	373,638	301,483	72,155
Recreation and Culture	962,853	251,456	711,397
Roads	873,384	622,348	251,036
Debt Service	1,255,491	122,319	1,133,172
Capital Projects	385,500	274,797	110,703
Administration	1,158,442	710,535	447,907
 Total Operating Budget - General Fund Type	 \$ 8,178,806	 \$ 4,877,028	 \$ 3,301,778
Other Financing Uses:			
Borrowed Money-			
Kentucky Advanced Revenue Program - Principal	1,116,600	1,116,600	
Transfers to Public Property			
Corporation Fund	127,740	127,728	12
Jail Lease Participation Agreement			
Principal on Lease	110,000	110,000	
 TOTAL BUDGET - GENERAL FUND TYPE	 \$ 9,533,146	 \$ 6,231,356	 \$ 3,301,790

BOURBON COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 For The Fiscal Year Ended June 30, 2003
 (Continued)

<u>SPECIAL REVENUE FUND TYPE</u>			
<u>Expenditure Categories</u>	<u>Final Budget</u>	<u>Budgeted Expenditures</u>	<u>Under (Over) Budget</u>
Administration	\$ 880,653	\$ 346,585	\$ 534,068
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	<u>\$ 880,653</u>	<u>\$ 346,585</u>	<u>\$ 534,068</u>

<u>CAPITAL PROJECTS FUND TYPE</u>			
<u>Expenditure Categories</u>	<u>Final Budget</u>	<u>Budgeted Expenditures</u>	<u>Under (Over) Budget</u>
General Government	\$ 236,798	\$ 51,922	\$ 184,876
Debt Service	120,478		120,478
TOTAL BUDGET - CAPITAL PROJECTS FUND TYPE	<u>\$ 357,276</u>	<u>\$ 51,922</u>	<u>\$ 305,354</u>

SCHEDULE OF UNBUDGETED EXPENDITURES

BOURBON COUNTY
SCHEDULE OF UNBUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2003

<u>Expenditure Items</u>	<u>Special Revenue Fund Type</u>
Scholarships Awarded	\$ 82,875
Shoes for Indigents	16,916
Indigent Hospital Bills	92,628
Legal Ads	279
Prescriptions	<u>1,012</u>
Totals	<u>\$ 193,710</u>

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Donnie Foley, Bourbon County Judge/Executive
Members of the Bourbon County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Bourbon County, Kentucky, as of and for the year ended June 30, 2003, and have issued our report thereon dated July 8, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Bourbon County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bourbon County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
July 8, 2004

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Donnie Foley, Bourbon County Judge/Executive
Members of the Bourbon County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Bourbon County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. Bourbon County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Bourbon County's management. Our responsibility is to express an opinion on Bourbon County's compliance based on our audit.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Bourbon County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Bourbon County's compliance with those requirements.

We were unable to obtain sufficient documentation supporting the compliance of Bourbon County with the Patch Project regarding sub-recipient monitoring, nor were we able to satisfy ourselves as to Bourbon County's compliance with those requirements by other auditing procedures.

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding Bourbon County's compliance with the requirements of the Patch Project regarding sub-recipient monitoring, Bourbon County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance

The management of Bourbon County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Bourbon County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted one matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Bourbon County's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs.

- 2003-1: The Fiscal Court Should Improve Controls Over Sub-Recipient Monitoring To Ensure Compliance With Applicable Laws And Regulations

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
July 8, 2004

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

BOURBON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Fiscal Year Ended June 30, 2003

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Bourbon County.
2. No reportable conditions are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Bourbon County were disclosed during the audit.
4. One reportable condition disclosed during the audit of the major federal awards programs is reported in the Independent Auditor's Report. The condition is reported as a material weakness.
5. The auditor's report on compliance for the audit of the major federal awards programs for Bourbon County expresses a qualified opinion.
6. Audit findings relative to the major federal awards programs for Bourbon County are reported in Part C of this schedule.
7. The programs tested as major programs were: the Public Assistance Grant (CFDA # 83.544) and the Patch Project (CFDA # 93.590)
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Bourbon County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT FINDINGS:

None.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT

2003-1 - The Fiscal Court Should Improve Controls Over Sub-Recipient Monitoring To Ensure Compliance With Applicable Laws And Regulations

Prior to beginning fieldwork, the Auditor of Public Accounts was contacted by the Bourbon County Treasurer, when she was made aware by the FBI of problems involving the Patch Project (a federal grant). Per review of the contract for the Patch Project, it appears that the fiscal court was to act as a pass through entity for the Patch Project and that the Patch Project would be a sub-recipient. As a condition of receiving federal awards, the fiscal court agreed to comply with applicable laws, regulations and the provisions of contracts and grant agreements and to maintain internal control to reasonably ensure compliance with those requirements. As a pass through entity, the fiscal court was responsible for sub-recipient monitoring. The main objective of sub-recipient monitoring is to provide reasonable assurance that federal award information and compliance requirements are identified to sub-recipients, sub-recipient activities are monitored, sub-recipient audit findings are resolved and the impact of any sub-recipient noncompliance on the pass-through entity is evaluated. The pass-through entity should also perform procedures to provide reasonable assurance that sub-recipient has required audits performed and taken appropriate corrective action on audit findings.

BOURBON COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For The Fiscal Year Ended June 30, 2003
 (Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
 AUDIT (Continued)

2003-1 - The Fiscal Court Should Improve Controls Over Sub-Recipient Monitoring To Ensure
 Compliance With Applicable Laws And Regulations (Continued)

Per inquiry and review of available audit documentation, it appears that proper sub-recipient monitoring was not accomplished by the fiscal court. Based on audit work completed, payments during fiscal year 2003 were diverted to a non-county post office box, reimbursement requests were filed for which no money was received by county treasury and fiscal court was uncertain whether the sub-recipient was in compliance with audit requirements.

In the future, we recommend that the fiscal court take steps to ensure that policies and procedures are in place to provide reasonable assurance that:

- The Fiscal Court's Control Environment Is Conducive To And Reflects An Appropriate Management Attitude Toward Internal Control In Regard To Sub-Recipient Monitoring.
- The Fiscal Court Has Identified And Analyzed Relevant Risks To Achievement Of Grant Objectives By Sub-recipients. For Example, Changes In Sub-Recipients Such As Financial Problems That Could Lead To Diversion Of Grant Funds.
- The Fiscal Court Has Identified Federal Award Information And Compliance Requirements to Sub-Recipients, Sub-Recipient Activities Are Monitored, Sub-Recipient Audit Findings Are Resolved, And The Impact Of Any Sub-Recipient Non-Compliance On The Pass-Through Entity Is Evaluated.
- The Fiscal Court, Acting As A Pass-Through Entity, Performs Procedures To Provide Reasonable Assurance That Sub-Recipient Has Required Audits Performed And Has Taken Corrective Action On Audit Findings.
- The Fiscal Court Identifies, Captures And Exchanges Information Enabling People To Carry Out Their Responsibilities.
- The Fiscal Court's Effectiveness Of Internal Controls Over Time Is Being Appropriately Assessed. For Example, Is A Tracking System In Place That Assures Timely Submission Of Required Reporting, Such As Financial Reports, Performance Reports, Audit Reports, On-Site Monitoring Reviews Of Sub-Recipients And Timely Resolution Of Audit Findings?
- The Fiscal Court Will Directly Receive All Grant Funds And Deposit Them Into An Official County Bank Account Before Funds Are Disbursed To Sub-Recipients.

	Questioned Costs
Patch Project Receipts/Expenditures	\$77,870

BOURBON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2003
(Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT (Continued)

2003-1 - The Fiscal Court Should Improve Controls Over Sub-Recipient Monitoring To Ensure
Compliance With Applicable Laws And Regulations (Continued)

County Judge/Executive Donnie Foley's Response:

The county has been the fiscal agent for many grants (both federal and state) and this is the first time there has been any by-passing of monies into the fiscal court's checking account established for the grant. The Bourbon County Fiscal Court will not tolerate the involvement of the county on any grant unless the monies are deposited first into their bank account and then dispersed like any other county claim through a fiscal court meeting's approval. Any entity that is the recipient of such grants will be informed in the very beginning this is the only way a grant will be processed. All expenditures must follow the procurement code adopted by the fiscal court. Any peoples/group benefiting from a grant must inform the Bourbon County Fiscal Court of changes concerning banking, budgeting, and or policy procedures before any such changes can occur. Any deviation from this will result in the termination of the Fiscal Court's participation.

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

None

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

BOURBON COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2003

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
<u>U.S. Department of Housing and Urban Development</u>		
Passed-Through State Department for Local Government:		
Community Development Block Grants- Rural Water Extension (CFDA # 14.228)	Not Available	\$ 6,000
<u>U.S. Department of Justice</u>		
Passed-Through State Justice Cabinet:		
Violence Against Women Grant (CFDA # 16.588)	Not Available	26,112
<u>U.S. Department of Transportation</u>		
Passed-Through State Transportation Cabinet:		
Highway Planning and Construction - Duncan Tavern Grant Phase I	Not Available	2,469
Duncan Tavern Grant Phase II	Not Available	67,800
Wright House (CFDA # 20.205)	0272091	14,680
<u>U. S. Federal Emergency Management Agency</u>		
Passed-Through State Department of Military Affairs:		
Disaster and Emergency Assistance Grants- Coordinator Salary (CFDA #83.503)	Not Available	6,759
Public Assistance Grant (CFDA #83.544)	Not Available	143,902

BOURBON COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Fiscal Year Ended June 30, 2003
(Continued)

U.S. Administration for Children and Families

Passed-Through State Department of
Health and Human Services

Patch Project

(CFDA # 93.590)

Not Available

\$ 108,170

Total Cash Expenditures of Federal Awards

\$ 375,892

BOURBON COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2003

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Bourbon County, Kentucky, and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Note 2 - The federal expenditures for the Patch Project include grants to subrecipients as follows:

<u>Subrecipient</u>	<u>Pass-through Grant Amount</u>
Patch Project	\$108,170

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CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

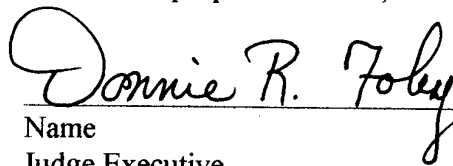
BOURBON COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2003

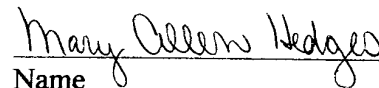
CERTIFICATON OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
BOURBON COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2003

The Bourbon County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistant Program was expended for the purpose intended, as dictated by the applicable Kentucky Revised Statutes.



Name
Judge Executive



Name
County Treasurer

